California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

SENATOR
DENISE MORENO DUCHENY
CHAIR

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Agenda

April 12, 2010
1:30 p.m. or upon adjournment of session
Room 4203

SB 844 **Committee on Budget and Fiscal Review – State finance: budget process.**

SB 845 **Committee on Budget and Fiscal Review – Local governments: revenue.**

SB 1020 **Senator Wolk – State budget.**

SB 1426 **Senator DeSaulnier – State budget: 2-year spending plan.**

SCA 9 **Ducheny – Finance: state budget: taxes.**

SCA 15 **Calderon – State budget.**

SCA 19 **DeSaulnier – State and local finance reform.**

AB 349 **Assemblymember Silva. State mandates.**

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**SB 844**
Author:	**Budget and Fiscal Review Committee**
As Amended:	**April 8, 2010**
Consultant:	**Keely Martin Bosler**
Fiscal:	**Yes**
Hearing Date:	**April 12, 2010**

Subject: State finance: budget process.

Summary: This bill would amend statute to fully implement the budget reform provisions of SCA 19 (DeSaulnier). This bill, SCA 19, and SB 845 constitute a state and local government reform package that is sponsored by the organization *California Forward.* This bill provides a statutory framework for the implementation of performance-based budgeting and for a systematic program performance review by the Legislature. This bill also makes operational "pay as you go" provisions contained in SCA 19.

Background:

Historic Budget and Local Government Reform Efforts. There have been numerous proposals to reform the budget and State/local government relationship over the past several decades. Historical reform efforts include, but are not limited to the following:

- Pilot projects on performance budgeting in four State departments starting in 1993 by then Governor Pete Wilson.
- Recommendations by the **California Constitution Revision Commission** that convened from 1994 to 1996 at the direction of statute and made various recommendations regarding the State budget process and alignment of programs between State and local governments.
- Recommendations by the **California Citizens Budget Commission** in 1998 that proposed statutory and constitutional changes to the budget process, including reducing the vote requirement for the State budget to a majority vote.
- Recommendations in the Governor's 2004 **California Performance Review** regarding the State budget process, including a recommendation to adopt a biennial budget and a performance-based budgeting system.

Reforms implemented in recent years include:

- **Proposition 58** which was passed by voters in 2004 and requires that the State enact a balanced budget and provides for mid-year actions in the event that the budget falls out of balance. Proposition 58 also established a special budget reserve called the Budget Stabilization Account and prohibited borrowing to cover budget deficits.
- **Proposition 1A** which was passed by the voters in 2004 and reduced the State's authority over local finances by restricting the State from reducing or altering the allocation of local sales tax rates. Proposition 1A also restricted the State from shifting property taxes from local government to schools or community colleges and does not allow the State to decrease vehicle license fee revenues to local government without providing replacement funding. Proposition 1A allows the state to redirect local property tax revenue to schools for state General Fund relief only twice in a consecutive ten-year period. The redirection is considered a loan which must be repaid within three years with no second redirect allowed until the first is repaid.

***California Forward* Organization.** *California Forward* has sponsored the most recent efforts regarding government reform. *California Forward* is an organization that was created by California Common Cause, the Center for Governmental Studies, the New California Network, and the Commonwealth Club of California's Voices for Reform Project in March 2008. The organization's main goal is to contribute to improving the quality of life for all Californians by creating a more responsive, representative, and cost-effective government. This organization is funded by the following foundations: the California Endowment, the Evelyn and Walter Haas Jr. Fund, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the David and Lucile Packard Foundation.

In 2008, *California Forward* started a process of consultation and engagement with the public and community leaders regarding a government reform agenda. They have made hundreds of presentations, consulted with hundreds of community leaders, conducted focus groups and public opinion research in the development of a reform agenda that includes budget process reform and local government reform.

Proposed Law:

This bill makes statutory changes needed to implement the constitutional reforms contained in SCA 19 (DeSaulnier). This bill does the following:

Program Performance Review. This bill requires the Legislature to establish a process for reviewing the performance of all state programs at least once every ten years, including tax expenditures. Six months prior to the deadline for review of each program a joint committee shall refer the initial program review to the appropriate policy committee of each house of the Legislature. A joint committee shall propose legislation based on the policy committee recommendations and other recommendations that will reduce costs, improve outcomes, or terminate the program. The proposed legislation of the joint committees shall be submitted to the Rules Committee in each house and referred to appropriate committees for public hearings and further actions. This bill requires the proposed legislation to be posted on the joint committee's website.

LAO Role in "Pay As You Go". This bill requires the fiscal committee of each house to determine whether a bill or measure should be reviewed by the Legislative Analyst's Office (LAO) to make determination of whether the statute is restricted by the new constitutional "pay as you go" provisions (contained in SCA 19 [DeSaulnier]) that require that any statute or measure that has "qualified state costs" of more than $25 million must have offsetting program reductions or revenue increases of an equal or greater amount.

This bill allows the Legislature to override the LAO's determination of constitutionality by a two-thirds vote in each house. This bill authorizes the LAO to consider impacts to other programs and establish a time period in making determinations in this section.

The Legislative Counsel digest shall reflect the determination made by the LAO before a measure is read for a third time if the LAO determines that the bill has qualified state costs of $25 million or more.

"Pay As You Go" Exclusions and Definitions. This bill waives the requirements of the new "pay-go" constitutional amendment if the State is in a structural surplus, and the net increase in costs or net decrease in revenues does not exceed the amount by which state revenues exceed state expenditure obligations in any given year, over a five year period starting with the prior fiscal year.

Also, this bill defines "qualified state costs" to exclude: general obligation bond debt; restoration of funding that was reduced in a prior fiscal year, to balance the budget to address a forecasted deficit; one-time increases in the budget bill or a budget trailer bill; COLAs or other workload increases, including increases in Memorandums of Understanding (MOUs) approved by the Legislature; and local mandates. This bill defines "a net increase in qualified costs" to mean ongoing expenditures and does not include one-time expenditures. This bill defines "additional revenue" to mean a sustained increase as determined by the state agency responsible for collecting the revenue.

Performance Data in Budget Document. This bill requires each state agency to submit performance data that reflect desired outcomes for existing and proposed activities as part of the annual budget submission. This bill also requires each state agency to identify and update the following: the mission and goals of the agency, the activities and programs focused on achieving those goals, performance metrics, prior-year performance data, and proposed changes in statute to improve outcomes or reduce costs. This data shall be available on the Governor's website.

Development of a Performance-Based Budget. This bill requires that performance-based budgeting methods be implemented for all budgets submitted to the Legislature by the 2014-15 fiscal year. This bill requires the LAO to review the adequacy of the performance metrics.

This bill creates a task force consisting of the Department of Finance (DOF), the State Controller's Office (SCO), and the Chairpersons and Vice Chairpersons of the budget committees that shall review and comment on DOF's guidelines for developing performance-based budgets, on DOF's training program to ensure successful implementation of performance-based budgets, and on DOF's plans for implementing performance-based budgeting.

Fiscal Effect:

This bill, if implemented with SCA 19 (DeSaulnier), is likely to require new state spending in the tens of millions of dollars annually to develop and implement new performance standards. This includes additional resources for the DOF and the LAO given their expanded roles under this bill. In addition, new information technology expenditures could result to address the new requirements.

Source: California Forward

Support:

Organizational Endorsements for SB 844:
AARP
State Building and Construction Trades Council of California
Sierra Business Council
Monterey County Business Council
San Joaquin County Business Council
Fresno Business Council
Greenlining Institute
California Church IMPACT
Yolo County Board of Supervisors
San Gabriel Valley Economic Partnership
California Alliance of Child and Family Services
Kern County Taxpayers Association
Progressive Christians Uniting
The Campaign for College Opportunity

WELL Network

Organizational Endorsements for the California Forward 2010 Reform Principles:
Inland Empire Economic Partnership
Orange County Business Council
San Carlos Chamber of Commerce
California Senior Advocates League
San Francisco Chamber of Commerce
California La Raza Lawyers Association

Individuals:
Jane Affonso, Redondo Beach
Ernest and Hannah Biberstein, Davis
Jerry Brown, Chatsworth
Margaret Fertschneider, Atascadero
Elaine Holder, San Luis Obispo
Jeanette McNeely, San Jose
Merilie Robertson, Canoga Park
Dennis Quirin, Oakland

Opposed:
California Taxpayers' Association
Howard Jarvis Taxpayers Association

Comments:

1. **Performance Measures and Management**. Performance measures can be a useful tool for managers to assess how effective programs are in meeting their goals and to help focus managers on outcomes and not processes. However, many state departments would have to make significant changes to their management structure, training, and data collection systems before they could effectively use performance measures to guide management decisions. Given this, it is unclear whether the state could meet the deadline for performance measures set forth in this constitutional amendment. This is especially true if there is not sustained leadership in the executive branch on this effort.

2. **Measurements and Priorities**. Performance measurements can be useful tools in helping the Legislature evaluate program performance and efficacy. However, they are not a substitute for setting Legislative priorities. For example, public needs still require funding regardless of a department's administrative performance in achieving an agreed upon performance level.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**SB 845**
Author:	**Committee on Budget and Fiscal Review**
As Amended:	**March 18, 2010**
Consultant:	**Brian Annis**
Fiscal:	**Yes**
Hearing Date:	**April 12, 2010**

Subject: Local Government.

Summary: This bill would amend statute to fully implement the local-government reform provisions of Senate Constitutional Amendment 19 (SCA 19). This bill, SCA 19, and SB 844, constitute a state and local government reform package that is sponsored by the group *California Forward*. Among the provisions of this bill, are implementation requirements related to constitutional changes in SCA 19 in the areas of local government planning and accountability, and new local government revenue authority.

Background:

Budget and Local Government Reform. There have been numerous proposals to reform the budget and State/local government relationships over the past decades. Historical reform efforts include, but are not limited to the following:

- Pilot Projects on performance budgeting in four State departments starting in 1993 by then Governor Pete Wilson.
- Recommendations by the **California Constitution Revision Commission** that convened from 1994 to 1996 at the direction of statute and made various recommendations regarding the State budget process and alignment of programs between State and local governments.
- Recommendations by the **California Citizens Budget Commission** in 1998 that proposed statutory and constitutional changes to the budget process, including reducing the vote requirement for the State budget to a majority vote.
- Recommendations in the Governor's 2004 **California Performance Review** regarding the State budget process, including a recommendation to adopt a biennial budget and a performance-based budgeting system.

Reforms implemented in recent years include:

- **Proposition 58** which was passed by voters in 2004 requires that the State enact a balanced budget and provides for mid-year actions in the event that the budget falls out of balance. Proposition 58 also established a special budget reserve called the Budget Stabilization Account and prohibited borrowing to cover budget deficits.
- **Proposition 1A** which was passed by the voters in 2004 and reduced the State's authority over local finances by restricting the State from reducing or altering the allocation of local sales tax rates. Proposition 1A also restricted the State from shifting property taxes from local government to schools or community colleges and does not allow the State to decrease vehicle license fee revenues to local government without providing replacement funding. Proposition 1A allows the state to redirect local property tax revenue to schools for state General Fund relief only twice in a consecutive ten year period. The redirection is considered a loan which must be repaid within three years with no second redirect allowed until the first is repaid.

***California Forward* Organization.** *California Forward* is an organization that was created by California Common Cause, the Center for Governmental Studies, the New California Network, and the Commonwealth Club of California's Voices for Reform Project in March 2008. The organization's main goal is to contribute to improving the quality of life for all Californians by creating a more responsive, representative, and cost-effective government. This organization is funded by the following foundations: the California Endowment, the Evelyn and Walter Haas Jr. Fund, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the David and Lucile Packard Foundation.

California Forward started in 2008 a process of consultation and engagement with the public and community leaders regarding a government reform agenda. They have made hundreds of presentations, consulted with hundreds of community leaders, conducted focus groups and public opinion research in the development of a reform agenda that includes budget process reform and local government reform. *California Forward* submitted to the Attorney General ballot initiatives to implement the reform aimed at the November 2010 ballot.

Local Authority to Impose Sales and Use Taxes. Currently, local governments have the authority to increase sales and use taxes to support local programs up to certain maximum levels defined in state law. The constitution sets voter approval thresholds depending on how the tax proceeds would be used. If the tax would be directed to a special or designated purpose, such as transportation improvements, the tax requires approval by two-thirds of local voters. If the tax would be directed to general purposes, the tax requires approval by a majority of voters.

<u>Proposed Law</u>:

Countywide Strategic Action Plans. This bill specifies the process for local governments to create a Countywide Strategic Action Plan, and describes the required components of the plan, including the following.

- The plan would begin with a majority vote of the county board of supervisors to initiate the development of the plan. The plan is discretionary – it is not a local mandate.
- The plan would be developed through a public process and require that the county consult with local agencies responsible for services such as education, public safety, and public health.
- The plan would include a declaration of community goals and desired outcomes, as well as an inventory of existing programs, and assessment of their effectiveness, and an inventory of the state agencies whose cooperation and assistance is necessary to implement the plan.
- The plan would include strategies for addressing goals, problems and inefficiencies identified in the plan, and a mechanism for measuring the progress toward these goals.
- The plan may include a plan to expend new revenue from a locally-imposed sales tax increase, should that tax be forwarded to voters and approved by a majority vote (see below for further explanation of the local tax authority).
- The completed plan would be adopted by a county board of supervisors.

New Local Tax Authority. In a county where a Countywide Strategic Action Plan is approved, the associated constitutional amendment would allow a county to increase the sales and use tax by up to 1-cent with a majority vote of the electorate. The new tax authority would work as follows:

- For a county that adopts a Countywide Strategic Action Plan that includes new sales tax revenue, the county board of supervisors may, by a simple majority vote, place before the voters a measure to increase the sales and use tax in that county by up to one cent. The tax increase would require a majority vote of the people for implementation.

- Fifty percent of revenue raised from the new tax would go to school districts within the county on the basis of each school district's average daily attendance. The county could alternatively redirect other tax revenue, such as property tax, to schools instead, but the net new funding for schools would have to equal an amount equivalent to 50 percent of the new tax revenue. The new funds directed to schools could not be considered in calculating the state's portion of the school district's revenue limit funding.
- The state would be prohibited from reducing subventions to the participating local government agencies in response to any tax approved pursuant to this measure and the related constitutional amendments.
- An approved sales and use tax increase would remain in place for 10 years, unless a county board of supervisors agreed to dissolve or amend the plan earlier. The county board of supervisors may vote to extend the tax for additional 10-year periods, but any extension would require a new vote of the electorate.

Provisions Dependent on Enactment of related Constitutional Amendment. The provisions of this bill are dependent on a voter approval of the related constitutional amendment.

Fiscal Effect:

Direct Fiscal Effects. If the new local sales tax authority was maximized – if voters in all counties approved a full 1-cent sales tax increase – approximately $5 billion in new annual revenues would be created for local government expenditures. Half of the new revenue would augment school funding and the rest would be allocated to local governments within a county on the basis of the Countywide Strategic Action Plan.

Source: California Forward

Support:

Organizational Endorsements for SB 845:
AARP
State Building and Construction Trades Council of California
Sierra Business Council
Monterey County Business Council
San Joaquin County Business Council
Fresno Business Council
Greenlining Institute
California Church IMPACT
Yolo County Board of Supervisors
San Gabriel Valley Economic Partnership
California Alliance of Child and Family Services
Kern County Taxpayers Association
Progressive Christians Uniting
WELL Network

Organizational Endorsements for the California Forward 2010 Reform Principles:
Inland Empire Economic Partnership
Orange County Business Council
San Carlos Chamber of Commerce
California Senior Advocates League
San Francisco Chamber of Commerce
California La Raza Lawyers Association

Individuals:
Jane Affonso, Redondo Beach
Ernest and Hannah Biberstein, Davis
Jerry Brown, Chatsworth
Margaret Fertschneider, Atascadero
Elaine Holder, San Luis Obispo
Jeanette McNeely, San Jose
Merilie Robertson, Canoga Park
Dennis Quirin, Oakland

Opposed:
California Taxpayers' Association
Mayor Joe Esquiel, On behalf of the Lakewood City Council

Staff Comments:

1. The Countywide Strategic Action Plan would provide a new forum for local governments to work together to develop strategies to achieve common community goals. It would track progress toward those goals, which may improve performance management at the local level. Since the County Strategic Action Plan would not be a local mandate, some counties may choose not to participate. However, if a county board of supervisors was interested in pursuing the new sales tax authority, the plan would need to be completed.

2. The new tax authority in the proposed constitutional amendment and this measure would make it easier for county voters to approve an increase in the sales tax compared to the existing two-thirds vote requirement in the Constitution for special taxes. The Legislative Analyst examined 2004 local sales tax measures and found that votes approved one-third of them. If the voter approval threshold for these taxes had been 50 percent, instead of 67 percent, another one-third would have been approved. Based on past behavior of local governments and local voters, it is unlikely the tax increase would be implemented in all counties, and where implemented, it might not be set at the maximum 1-cent level. New local tax revenue might be expected to be more in the range of $1 billion instead of the maximum of $5 billion.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**SB 1020**
Author:	**Wolk**
As Amended:	**February 11, 2010**
Consultant:	**Keely Martin Bosler**
Fiscal:	**Yes**
Hearing Date:	**April 12, 2010**

Subject: State budget.

Summary: This bill provides a statutory framework for the implementation of performance based budgeting and for a systematic program performance review by the Legislature. The provisions of this bill are the same performance based budgeting and program performance review provisions contained in the larger package of reforms sponsored by *California Forward*.

Background:

Historic Budget Reform Efforts. There have been numerous proposals to reform the budget over the past decades. Historical reform efforts include, but are not limited to, the following:

- Pilot projects on performance budgeting in four State departments starting in 1993 by then Governor Pete Wilson.
- Recommendations by the **California Constitution Revision Commission** that convened from 1994 to 1996 at the direction of statute and made various recommendations regarding the State budget process and alignment of programs between State and local governments.
- Recommendations by the **California Citizens Budget Commission** in 1998 that proposed statutory and constitutional changes to the budget process, including reducing the vote requirement for the State budget to a majority vote.
- Recommendations in the Governor's 2004 **California Performance Review** regarding the State budget process, including a recommendation to adopt a biennial budget and a performance-based budgeting system.

***California Forward* Organization.** *California Forward* has sponsored the most recent efforts regarding government reform. *California Forward* is an organization that was created by California Common Cause, the Center for Governmental Studies, the New California Network, and the Commonwealth Club of California's Voices for Reform Project in March 2008. The organization's main goal is to contribute to improving the quality of life for all Californians by creating a more responsive, representative, and cost-effective government. This organization is funded by the following foundations: the California Endowment, the Evelyn and Walter Haas Jr. Fund, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the David and Lucile Packard Foundation.

In 2008, *California Forward* started a process of consultation and engagement with the public and community leaders regarding a government reform agenda. They have made hundreds of presentations, consulted with hundreds of community leaders, conducted focus groups and public opinion research in the development of a reform agenda that includes budget process reform and local government reform. Performance-based budgeting and program performance review are just two of the reforms proposed by *California Forward.*

Proposed Law:

This bill does the following:

Program Performance Review. This bill requires the Legislature to establish a process for reviewing the performance of all state programs at least once every ten years, including tax expenditures. Six months prior to the deadline for review of each program, a joint committee shall refer the initial program review to the appropriate policy committee of each house of the Legislature. A joint committee shall propose legislation based on the policy committee recommendations and other recommendations that will reduce costs, improve outcomes, or terminate the program. The proposed legislation of the joint committees shall be submitted to the Rules Committee in each house and referred to appropriate committees for public hearings and further actions. This bill requires the proposed legislation to be posted on the joint committee's website.

Performance Data in Budget Document. This bill requires each state agency to submit performance data that reflect desired outcomes for existing and proposed activities as part of the annual budget submission. This bill also requires each state agency to identify and update the following: the mission and goals of the agency, the activities and programs focused on achieving those goals, performance metrics, prior-year performance data, and proposed changes in statute to improve outcomes or reduce costs. This data shall be available on the Governor's website.

Development of a Performance-Based Budget. This bill requires that performance based budgeting methods be implemented for all budgets submitted to the Legislature by the 2014-15 fiscal year. This bill requires the LAO to review the adequacy of the performance metrics.

This bill creates a task force consisting of the Department of Finance (DOF), the State Controller's Office (SCO), and the Chairpersons and Vice Chairpersons of the budget committees that shall review and comment on DOF's guidelines for developing performance-based budgets, on DOF's training program to ensure successful implementation of performance-based budgets, and on DOF's plans for implementing performance-based budgeting.

Fiscal Effect:

This bill is likely to require new state spending in the tens of millions of dollars annually to develop and implement new performance standards. This includes additional resources for the DOF and the LAO given their expanded roles under this bill. In addition, new information technology expenditures could result to address the new requirements.

Source: California Forward

Support:
American Council of Engineering Companies of California
California Business Properties Association
California Chapter of the American Fence Association
California Construction and Industrial Materials Association
California Fence Contractors' Association
California Forestry Association
California Grocers Association
California Independent Oil Marketers Association
California League of Food Processors
California Manufacturers & Technology Association
California Taxpayers Association

Chemical Industry Council of California
Engineering Contractors' Association
Flasher/Barricade Association
Marin Builders' Association
Western Growers
Western States Petroleum Association

Supporters of SB 777 the 2009 version of SB 1020:
California Forward (Sponsor)
California Association of Nonprofits
California Taxpayers Association (Cal-Tax)
Children Now
Northbay Leadership Council
Fresno Unified School District
San Jose Unified School District
Orange County Business Council
Saving California Communities
Yolo County
City of Long Beach
City of Riverside
City of Monterey
Kern County Taxpayers Association
Valley Industry and Commerce Association
Inland Empire Economic Partnership
Monterey County Business Council

Individuals
Bill Slaton, SMUD board member
Robert Goetsch, President, Zephyr Development
Bruce Presser, CEO, The Covello Group
Fred Main, California Forward Advisory Committee

Opposed: None on file.

Comments:

1. **Performance Measures and Management**. Performance measures can be a useful tool for managers to assess how effective programs are in meeting their goals and to help focus managers on outcomes and not processes. However, many state departments would have to make significant changes to their management structure, training, and data collection systems before they could effectively use performance measures to guide management decisions. Given this, it is unclear whether the state could meet the deadline for performance measures set forth in this constitutional amendment. This is especially true if there is not sustained leadership in the executive branch on this effort.

2. **Measurements and Priorities**. Performance measurements can be useful tools in helping the Legislature evaluate program performance and efficacy. However, they are not a substitute for setting Legislative priorities. For example, public needs still require funding regardless of a department's administrative performance in achieving an agreed upon performance level.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**SB 1426**
Author:	**DeSaulnier**
As Amended:	**February 19, 2010**
Consultant:	**Keely Martin Bosler**
Fiscal:	**Yes**
Hearing Date:	**April 12, 2010**

Subject: State budget: 2-year spending plan.

Summary: This bill proposes a two-year budget process starting in 2011-12.

Background:

State Budget Process Overview. Under the current State Constitution the Legislature has the power to appropriate State funds and make midyear adjustments to those appropriations. The annual State budget act is the Legislature's primary method of authorizing expenses for a particular fiscal year. Also, under the current State Constitution the Governor is required to propose a balanced budget by January 10 for the next fiscal year (beginning July 1) and the Legislature is required to pass the annual budget act by June 15. Under current law the Governor may also reduce or eliminate specific appropriation items using his or her "line-item veto" power and the Legislature may override a veto with a two-thirds vote in each house. However, once the budget has been approved by the Legislature and the Governor, current law provides the Governor with limited authority to reduce spending during the year without legislative approval.

Proposed Law:

This bill requires that the budget plan submitted by the Governor in every odd year to include a budget plan for the succeeding year as well. This bill would require this two-year budget proposal to commence in the 2011-12 fiscal year. The Governor shall propose modifications to the two-year budget plan in the second year of the two-year cycle.

Fiscal Effect:

The direct fiscal effects of this bill are likely to be minimal. The indirect effects of this bill are unknown and depend on future actions by the Legislature.

Source: Author

Support: None on file.

Opposed: None on file.

Comments:

1. **Planning May Improve.** This bill may result in improved planning to the extent that the Governor's plan must take into account large expenditure increases or revenue reductions in year two of the two-year cycle. However, the state currently has limited abilities to forecast caseload, expenditures and revenues accurately beyond

the fiscal year. This would most likely make the second year of the two-year cycle inaccurate and require significant revisions.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**SCA 9**
Author:	**Ducheny**
As Amended:	**January 26, 2009**
Consultant:	**Keely Martin Bosler**
Fiscal:	**Yes**
Hearing Date:	**April 12, 2010**

Subject: Finance: state budget: taxes.

Summary: This constitutional amendment would lower the vote threshold to pass a state budget to 55 percent of the membership concurring in each house. This measure also repeals the two-thirds vote requirement for raising state revenue.

Background:

State Budget Process Overview. Under the State Constitution, the Legislature has the power to appropriate State funds and make mid-year adjustments to those appropriations. The annual State budget act is the Legislature's primary method of authorizing expenses for a particular fiscal year. Also, under the State Constitution, the Governor is required to propose a balanced budget by January 10 for the next fiscal year (beginning July 1) and the Legislature is required to pass the annual budget act by June 15. Under current law, the Governor may also reduce or eliminate specific appropriation items using his or her "line-item veto" power and the Legislature may override a veto with a two-thirds vote in each house. However, once the budget has been approved by the Legislature and the Governor, current law provides the Governor with limited authority to reduce spending during the year without legislative approval.

Budget Vote Requirement. Under the State Constitution, General Fund appropriations (except appropriations for public schools), urgency measures, and bills that change State taxes for the purposes of increasing State revenues require a two-thirds vote of each house of the Legislature for passage. Budget trailer bills, which are statutes that implement certain budget actions, also require a two-thirds vote of each house if they are to take effect immediately under current law.

Proposed Law:

This statute would make the following changes to the constitution to change the State's budget process:

Budget Vote Threshold. This measure would require 55 percent of the membership concurring for passage of the budget bill and each budget implementation bill.

Tax Vote Threshold. This measure would remove the two-thirds vote requirement for tax increases.

One-Time Resources. This measure requires the Governor to provide an itemized statement of the estimated total state resources available to meet recommended expenditures and the amount, if any, of those resources anticipated to be one-time resources.

Referendum. This measure restricts the budget bill and budget implementation bills from being subject to referendum, since the budget bill is no longer an urgency statute.

<u>Fiscal Effect</u>:

There may be minor absorbable costs incurred by the Department of Finance to provide additional information on one-time resources. The indirect fiscal effects of this measure depend on future actions by the Legislature. However, this measure could result in increased revenues since this measure makes it easier to raise revenues.

<u>Source</u>: Author

<u>Support</u>:
California Professional Firefighters
California Faculty Association
California School Employees Association
California Communities United Institute

<u>Opposed</u>: California Taxpayers' Association

<u>Comments</u>:

1. **Supermajority Vote Requirements in Other States.** There are only eight states that have supermajority vote requirements for the passage of the State budget. All other states require only a majority vote for passage of the State budget. The other states that have supermajority vote requirements for the budget each have different systems as detailed below:
   a. **Arkansas.** Three-fourths majority is required on all appropriations except education, highways, and paying down state debt.
   b. **Connecticut.** Three-fifths majority is required for appropriations only if the General Fund expenditure ceiling is reached. Otherwise, appropriations require a simple majority.
   c. **Hawaii.** Two-thirds majority is required for appropriations only if the General Fund expenditure ceiling is reached. Otherwise, appropriations require a simple majority.
   d. **Illinois.** A simple majority vote is required for appropriations until June 1, after such time a three-fifths majority is required to pass the budget.
   e. **Maine.** A simple majority vote is required for all legislation that is non-urgency. Urgency legislation requires a two–thirds vote. Therefore, the budget must be passed by April 1 if it is to be implemented with a majority vote.
   f. **Nebraska.** Nebraska's system is similar to Maine's.
   g. **Rhode Island.** Appropriations require a two-thirds majority vote.

2. **Budget Vote Requirement and Accountability**. Reducing the vote threshold for the State budget could improve accountability by placing the responsibility of governance solely on the majority party and the Governor. This measure also provides the majority party with the authority to raise revenues with 55 percent of membership concurring in each house of the Legislature.

3. **Suggested Amendments.** The author indicates that the intent of this measure is to lower the vote threshold for both passing the budget and raising revenue to 55 percent of the membership in each house of the Legislature. However, the bill as currently drafted does not specify that raising revenue would require 55 percent for membership concurring in each house of the Legislature. If this is the intent,

amendments should be made to this measure to specify that 55 percent of the membership in each house of the Legislature is required to increase revenues.

Section six of this bill is no longer needed as this measure is no longer in conflict with other measures. The measures referenced in this bill were ultimately part of a larger ballot initiative (Proposition 1A) that failed passage by the voters in May 2009.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**SCA 15**
Author:	**Calderon**
As Amended:	**April 13, 2009**
Consultant:	**Keely Martin Bosler**
Fiscal:	**Yes**
Hearing Date:	**April 12, 2010**

Subject: State Budget.

Summary: This measure waives the two-thirds vote requirement for the budget when revenues are five percent below the estimate in the budget bill enacted for the current fiscal year.

Background:

Budget Vote Requirement. Under the State Constitution, General Fund appropriations (except appropriations for public schools), urgency measures, and bills that change State taxes for the purposes of increasing State revenues require a two-thirds vote of each house of the Legislature for passage. Budget trailer bills, which are statutes that implement certain budget actions, also require a two-thirds vote of each house if they are to take effect immediately under current law.

Proposed Law:

This measure would make the following changes to the State Constitution:

Budget Vote Threshold. This measure waives the two-thirds vote requirement for the budget bill if the Legislative Analyst's Office (LAO) estimates that on or after May 15 revenues are five percent below the estimate in the budget bill enacted for the current fiscal year. This measure also authorizes budget bill and budget implementation bills to take effect immediately and would be effective for the first fiscal year after voter approval of this measure.

Referendum. This measure would exempt all statutes that take effect immediately from referendum by the people. Therefore, budget bill and budget implementation bills would not be subject to referendum under this measure.

Fiscal Effect:

The fiscal effect of this measure is unknown and will depend on future actions by the Legislature.

Source: Author

Support: None on file.

Opposed: None on file.

Comments:

1. **Supermajority Vote Requirements in Other States.** There are only eight states that have supermajority vote requirements for the passage of the State budget. All other states require only a majority vote for passage of the State budget. The other

states that have supermajority vote requirements for the budget each have different systems as detailed below:

a. **Arkansas.** Three-fourths majority is required on all appropriations except education, highways, and paying down state debt.
b. **Connecticut.** Three-fifths majority is required for appropriations only if the General Fund expenditure ceiling is reached. Otherwise, appropriations require a simple majority.
c. **Hawaii.** Two-thirds majority is required for appropriations only if the General Fund expenditure ceiling is reached. Otherwise, appropriations require a simple majority.
d. **Illinois.** A simple majority vote is required for appropriations until June 1, after such time a three-fifths majority is required to pass the budget.
e. **Maine.** A simple majority vote is required for all legislation that is non-urgency. Urgency legislation requires a two-thirds vote. Therefore, the budget must be passed by April 1 if it is to be implemented with a majority vote.
f. **Nebraska.** Nebraska's system is similar to Maine's.
g. **Rhode Island.** Appropriations require a two-thirds majority vote.

2. **Potential Impacts Unknown.** It is unclear what impact this measure would have on the budget process. It may be easier to arrive at a spending plan due to the lower vote threshold; however, if new taxes are part of the budget plan a two-third majority would still be needed to implement the budget. It may be more difficult to achieve a two-third vote on revenue increases if the spending plan has support of a simple majority.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**SCA 19**
Author:	**DeSaulnier**
As Amended:	**April 8, 2010**
Consultant:	**Keely Martin Bosler**
Fiscal:	**Yes**
Hearing Date:	**April 12, 2010**

Subject: State Finance: budget process.

Summary: This constitutional amendment contains various changes to the state budget and legislative process sponsored by the *California Forward* organization. Specifically, these amendments would implement a pay as you go system for the majority of legislation, the Governor's budget, and initiatives. This measure would significantly limit how one-time revenues could be expended. This measure requires the Legislature to review state programs once every ten years. This measure would also lower the vote threshold for the budget and increase the vote threshold for fees when they are being used to fund a program, service, or activity that was previously funded by revenue from a tax. This measure would also reduce legislator pay if the budget was not passed by June 25 and provide the Governor with mid-year cut authority if the Legislature does not act prior to the 45^{th} day of a fiscal emergency.

Background:

State Budget Process Overview. Under the State Constitution, the Legislature has the power to appropriate State funds and make mid-year adjustments to those appropriations. The annual State budget act is the Legislature's primary method of authorizing expenses for a particular fiscal year. Also, under the current State Constitution, the Governor is required to propose a balanced budget by January 10 for the next fiscal year (beginning July 1) and the Legislature is required to pass the annual budget act by June 15. Under current law, the Governor may also reduce or eliminate specific appropriation items using his or her "line-item veto" power and the Legislature may override a veto with a two-thirds vote in each house. However, once the budget has been approved by the Legislature and the Governor, current law provides the Governor with limited authority to reduce spending during the year without legislative approval.

Budget Vote Requirement. Under the State Constitution, General Fund appropriations (except appropriations for public schools), urgency measures, and bills that change State taxes for the purposes of increasing State revenues require a two-thirds vote of each house of the Legislature for passage. Budget trailer bills, which are statutes that implement certain budget actions, also require a two-thirds vote of each house if they are to take effect immediately under current law.

Late Budgets. When a fiscal year begins without a State budget, most expenses do not have authorization to continue under current law. Over time, however, a number of court decisions and interpretations of the Constitution by the State Controller and other officials have expanded the types of payments that may continue to be made when a State budget has not been passed. For example, State employee salaries currently continue to be made in this scenario with several notable exceptions—such as the salaries of the Governor, other elected State officials, Members of the Legislature, and their appointed staff, who receive no salaries after July 1 until a budget is passed. Any salary payments which are withheld from these officials are then paid upon passage of the budget.

Spending Limits. The current State Constitution has two main provisions related to limiting the State's overall level of spending. First, there is a limit on the amount of tax revenues that the State can spend each year. In recent years, however, this limit has been well above the State's level of spending and has not been a factor in budget decisions. Second, in March 2004 the voters passed Proposition 58, which, among other things, required the Legislature to pass a balanced budget each year.

Budget Reserve Funds. When the State passes its annual budget it estimates the amount of revenues that it expects to receive in the upcoming year. Under current law, the State may set aside a portion of these revenues into one of two rainy day reserve funds. Any money in these reserves can pay for unexpected expenses, cover drops in tax receipts, or be saved for future years. The two funds are:

- **Special Fund for Economic Uncertainties (SFEU).** The SFEU is the State's traditional reserve fund. Any unexpected monies received during a year by the General Fund are automatically deposited into the SFEU. Funds can be spent for any purpose with approval by the Legislature.
- **Budget Stabilization Account (BSA).** Under current law, each year, three percent of estimated General Fund State revenues are transferred into the BSA. The Governor, however, can stop the transfer in any year by issuing an executive order. In addition, the annual transfers are not made once the balance of the BSA reaches a specific target—the higher amount of $8 billion or five percent of revenues. By passing a law, the State can transfer funds out of the BSA and use the funds for any purpose.

Fiscal Emergencies. Under existing law, the Governor can declare a fiscal emergency if he or she determines after the budget has been enacted that the State is facing substantial revenue shortfalls or spending overruns. In such cases, the Governor must propose legislation to address the fiscal emergency, and call the Legislature into a special session. If the Legislature fails to pass, and send to the Governor, legislation to address the budget problem within 45 days, it would be prohibited from acting on any other bill or adjourning until such legislation is passed.

Budget and Infrastructure Planning Requirements. Existing law provides that State departments should develop budgets that define their programs' objective and budget for those objectives each year. The Governor is required to submit to the Legislature a five-year infrastructure plan each year.

Historic Budget and Local Government Reform Efforts. There have been numerous proposals to reform the budget and State/local government relationship over the past several decades. Historical reform efforts include, but are not limited to the following:

- Pilot projects on performance budgeting in four State departments starting in 1993 by then Governor Pete Wilson.
- Recommendations by the **California Constitution Revision Commission** that convened from 1994 to 1996 at the direction of statute and made various recommendations regarding the State budget process and alignment of programs between State and local governments.
- Recommendations by the **California Citizens Budget Commission** in 1998 that proposed statutory and constitutional changes to the budget process, including reducing the vote requirement for the State budget to a majority vote.
- Recommendations in the Governor's 2004 **California Performance Review** regarding the State budget process, including a recommendation to adopt a biennial budget and a performance-based budgeting system.

Reforms implemented in recent years include:

- **Proposition 58** which was passed by voters in 2004 and requires that the State enact a balanced budget and provides for mid-year actions in the event that the budget falls out of balance. Proposition 58 also established a special budget reserve called the Budget Stabilization Account and prohibited borrowing to cover budget deficits.
- **Proposition 1A** which was passed by the voters in 2004 and reduced the State's authority over local finances by restricting the State from reducing or altering the allocation of local sales tax rates. Proposition 1A also restricted the State from shifting property taxes from local government to schools or community colleges and does not allow the State to decrease vehicle license fee revenues to local government without providing replacement funding. Proposition 1A allows the state to redirect local property tax revenue to schools for state General Fund relief only twice in a consecutive ten-year period. The redirection is considered a loan which must be repaid within three years with no second redirect allowed until the first is repaid.

***California Forward* Organization.** *California Forward* has sponsored the most recent efforts regarding government reform. *California Forward* is an organization that was created by California Common Cause, the Center for Governmental Studies, the New California Network, and the Commonwealth Club of California's Voices for Reform Project in March 2008. The organization's main goal is to contribute to improving the quality of life for all Californians by creating a more responsive, representative, and cost-effective government. This organization is funded by the following foundations: the California Endowment, the Evelyn and Walter Haas Jr. Fund, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the David and Lucile Packard Foundation.

In 2008, *California Forward* started a process of consultation and engagement with the public and community leaders regarding a government reform agenda. They have made hundreds of presentations, consulted with hundreds of community leaders, conducted focus groups and public opinion research in the development of a reform agenda that includes budget process reform and local government reform.

Local Authority to Impose Sales and Use Taxes. Currently, local governments have the authority to increase the sales and use tax to support local programs up to certain maximum levels defined in state law. The constitution sets voter approval thresholds depending on how the tax proceeds would be used. If the tax would be directed to a special or designated purpose, such as transportation improvements, the tax requires approval by two-thirds of local voters. If the tax would be directed to general purposes, the tax requires approval by a majority of voters.

<u>Proposed Law</u>:

This constitutional amendment would make various changes within the constitution to change the State's budget process and make changes to State/local government relationships. These amendments are dependent on statutory reforms contained in SB 844 and SB 845. This constitutional amendment does the following:

Majority Vote Budget. This constitutional amendment exempts appropriations made in budget bills from the two-thirds vote requirement and allows budget bills to go into effect immediately.

Fees. This constitutional amendment requires that any bill that imposes a fee be passed by two-thirds of each house if revenue from the fee would be used to fund a program or activity that was previously funded by revenue from a tax that is repealed or reduced in the same fiscal year or in a prior fiscal year.

Pay as You Go. This constitutional amendment requires any **initiative** measure to provide for additional revenues in an amount that meets or exceeds the net increase in costs, other than costs attributable to bonds. The initiative measure may not be submitted to the electors until the LAO and DOF jointly determine that the initiative measure provides for additional revenues in an amount that meets or exceeds the net increase in costs.

This constitutional amendment would make any new **statute or constitutional amendment** void that costs in excess of $25 million unless it also contains provisions with program reductions or revenue increases in an amount equal or greater than the costs of the statute. The budget bills are excluded from this requirement, as are appropriations for school funding.

This constitutional amendment also requires that any **Governor's Budget** proposal to expand or create a new program be accompanied by a Statement identifying State program reductions or additional revenue that are equal or greater than the net increase in the State costs of the new or expanded program.

Unanticipated State Revenues. This constitutional amendment would require the Director of Finance on or before May 31 to estimate General Fund revenues for the current fiscal year, the General Fund impact of tax legislation adopted subsequent to the enactment of the budget bill, and the amount of the General Fund reserve for economic uncertainty as of June 30 of the current fiscal year. This constitutional amendment would define unanticipated revenues as the lesser of the following: (1) the estimate of General Fund revenues reported on May 31 minus the estimate of General Fund revenues for the current fiscal year set for in the January 10 Governor's Budget; or (2) the estimate of the General Fund reserve for economic uncertainty as of June 30 of the current fiscal year.

This constitutional amendment would limit unanticipated State revenues from being expended except to satisfy any additional obligation created by Proposition 98 resulting from the unanticipated revenues. After this obligation was met, the remaining unanticipated revenues shall be transferred to the Budget Stabilization Account up to $8 billion. If there are any remaining unanticipated revenues, this constitutional amendment would require that these revenues be used to retire outstanding budgetary indebtedness, including unfunded prior year obligations under Proposition 98, a repayment obligation created by the suspension of Proposition 1A (2004), a repayment obligation created by the suspension of Proposition 58 (2004) and the transfer of motor vehicle fuel sales tax to the State Transportation Improvement Program, unfunded state mandate obligations, and repayment of bonded indebtedness as a result of Proposition 58 (2004).

Governor's Budget Presentation and Budget Trailer Bills. This constitutional amendment requires the Governor to submit a budget for both the budget year and the succeeding fiscal year. The budget shall contain provisional language, performance measurement standards, a projection of anticipated State revenues, including nonrecurring revenues. The budget shall also contain a projection of State expenditures and revenues for the three fiscal years following the fiscal year succeeding the budget year and budget plans for those three fiscal years.

This constitutional amendment also requires the trailer bill language accompanying the Governor's budget to be introduced in bill form immediately in each house.

Budget Schedule. On or before May 1, appropriate committees in each house of the Legislature should consider the budget bill and implementing budget bills and refer them to the joint committee. The joint committee shall report recommendations to each house no later than June 20 of each year. The Legislature shall pass the budget no later than June 25 of each year.

This constitutional amendment also requires the Governor to submit revenue and expenditures projections on May 15, immediately following the report of recommendations by the joint committee, and October 15.

Program Performance Review. This constitutional amendment requires the Legislature to establish a process for reviewing the performance of all State programs once at least every ten years, including tax expenditures.

Legislator Pay. This constitutional amendment requires that if the budget bill is not passed by the Legislature by midnight on June 25, Members of the Legislature shall forfeit any salary or per diem until the budget bill is passed. No salary or per diem shall be paid retroactively.

Mid-Year Cut Authority. This constitutional amendment allows the Governor to reduce or eliminate unexpended appropriations in the budget act if the Legislature fails to act prior to the 45th day of a fiscal emergency. The Legislature can override the veto with a two-thirds vote of the membership of each house concurring.

Referendum. This constitutional amendment restricts the budget bill from being subject to referendum, since the budget bill is no longer an urgency statute.

Local Government - Property Tax Protection. This constitutional amendment would eliminate the ability of the state to redirect local property tax to schools. This would prohibit a tool used in the 2009 Budget Act, wherein the state suspended Proposition 1A to create a 2009-10 General Fund budget solution of $1.9 billion; while at the same time, holding local governments harmless by securitizing the state's future repayment. This constitutional amendment would additionally prohibit the Legislature from enacting a statute that would borrow, reallocate, or restrict or otherwise direct the expenditure of Redevelopment Agency (RDA) funds.

Local Government – Local Revenue Protection. This constitutional amendment would prohibit the state from reallocating any locally-imposed non-ad valorem tax or an assessment levied or imposed by a county, city, city and county, any special district, or any other local or regional governmental entity.

Local Government – Countywide Strategic Action Plans and new revenue authority. This constitutional amendment would define a Countywide Strategic Action Plan as a plan developed by local agencies within a county to effectively use existing and new revenue to accelerate progress toward community goals. In a county where a plan is approved, this constitutional amendment would allow a county to increase the sales and use tax by up to 1-cent with a majority vote of the electorate.

<u>Fiscal Effect</u>:

Direct Fiscal Effects. This constitutional amendment would likely require new state spending in the tens of millions of dollars annually to develop and implement new performance standards. Specifically, new information technology expenditures could result to address the new requirements.

In years when the budget bill is not passed by June 25, legislators would forfeit any salary or reimbursement for living and travel expenses. In any year that the Legislature does not pass a bill by June 25, the measure could reduce state costs by around $50,000 per day until the passage of a budget.

If the new local sales tax authority was maximized – if voters in all counties approved a full 1-cent sales tax increase – approximately $5 billion in new annual revenues would be created for local government expenditures.

Indirect Fiscal Effects. The indirect fiscal effects of this measure are impossible to estimate precisely, but could be significantly more than the direct fiscal effects described above. Taken together, these changes will likely have different fiscal effects, some of which may offset each other. By placing new restrictions on the creation of new programs through policy bills and the initiative process, and by placing new restrictions on unanticipated revenue, this constitutional amendment may slow the growth of state expenditures. To the extent unanticipated revenue is placed in reserve or is directed to early repayment of budgetary debt, future fluctuations in state expenditures may be less severe.

Source: California Forward

Support:

Organizational Endorsements for SCA 19:
AARP
State Building and Construction Trades Council of California
Sierra Business Council
Monterey County Business Council
San Joaquin County Business Council
Fresno Business Council
Greenlining Institute
California Church IMPACT
Yolo County Board of Supervisors
San Gabriel Valley Economic Partnership
California Alliance of Child and Family Services
Kern County Taxpayers Association
Progressive Christians Uniting
The Campaign for College Opportunity
WELL Network

Organizational Endorsements for the California Forward 2010 Reform Principles:
Inland Empire Economic Partnership
Orange County Business Council
San Carlos Chamber of Commerce
California Senior Advocates League
San Francisco Chamber of Commerce
California La Raza Lawyers Association

Individuals:
Jane Affonso, Redondo Beach
Ernest and Hannah Biberstein, Davis
Jerry Brown, Chatsworth
Margaret Fertschneider, Atascadero
Elaine Holder, San Luis Obispo
Jeanette McNeely, San Jose
Merilie Robertson, Canoga Park
Dennis Quirin, Oakland

<u>Opposed</u>:
California Taxpayers' Association
Howard Jarvis Taxpayers Association

<u>Staff Comments</u>:

1. **Supermajority Vote Requirements in Other States.** There are only eight states that have supermajority vote requirements for the passage of the State budget. All other states require only a majority vote for passage of the State budget. The other states that have supermajority vote requirements for the budget each have different systems as detailed below:
   a. **Arkansas.** Three-fourths majority is required on all appropriations except education, highways, and paying down state debt.
   b. **Connecticut.** Three-fifths majority is required for appropriations only if the General Fund expenditure ceiling is reached. Otherwise, appropriations require a simple majority.
   c. **Hawaii.** Two-thirds majority is required for appropriations only if the General Fund expenditure ceiling is reached. Otherwise, appropriations require a simple majority.
   d. **Illinois.** A simple majority vote is required for appropriations until June 1, after such time a three-fifths majority is required to pass the budget.
   e. **Maine.** A simple majority vote is required for all legislation that is non-urgency. Urgency legislation requires a two–thirds vote. Therefore, the budget must be passed by April 1 if it is to be implemented with a majority vote.
   f. **Nebraska.** Nebraska's system is similar to Maine's.
   g. **Rhode Island.** Appropriations require a two-thirds majority vote.

2. **Budget Vote Requirement and Accountability**. Reducing the vote threshold for the State budget could improve accountability by placing the responsibility of governance solely on the majority party and the Governor. However, without the authority to raise revenues by majority vote, the majority party and Governor would be limited to reducing state expenditures or reprioritizing existing expenditures. Therefore, this measure would not provide all the tools needed to fully address priorities and govern the State.

3. **Consequences to Legislative Pay Cuts.** The Legislative pay provisions of this measure have the potential to significantly reduce legislator pay. This could have the consequence of reducing the diversity of candidates seeking legislative office, as these reductions may eliminate candidates that are not independently wealthy and those that cannot afford to risk a significant reduction in income.

4. **Reduces Flexibility.** Many of the provisions in this constitutional amendment reduce the overall flexibility of the Governor and the Legislature to modify funding to address priorities. Specifically, this measure reduces how the Governor and Legislature may use one-time revenues. It also eliminates the ability to substitute fees for taxes without a supermajority vote. Reducing the flexibility of state resources ultimately reduces the Governor and Legislature's ability to set priorities for the state.

5. **More Stability for Local Revenues, Fewer Options for State Programs**. The new restrictions on state redirection of local revenues would eliminate state budget tools

that generated about $3.6 billion in 2009-10 budget relief. The 2009 Budget Act suspended Proposition 1A to effectively borrow $1.9 billion in local property tax revenue and shifted $1.7 billion in Redevelopment funds. These new restrictions would create more stability and predictability for local governments, but would further reduce budget options for the state.

6. **New local sales tax revenue.** The new tax authority in this proposed constitutional amendment would make it easier for county voters to approve an increase in the sales tax compared to the existing two-thirds vote requirement in the Constitution for special taxes. The Legislative Analyst examined 2004 local sales tax measures and found that votes approved one-third of them. If the voter approval threshold for these taxes had been 50 percent, instead of 67 percent, another one-third would have been approved. Based on past behavior of local governments and local voters, it is unlikely the tax increase would be implemented in all counties, and where implemented, it might not be set at the maximum one-cent level. New local tax revenue might be expected to be more in the range of $1 billion instead of the maximum of $5 billion.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**AB 349**
Author:	**Silva**
As Amended:	**December 15, 2009**
Consultant:	**Brian Annis**
Fiscal:	**Yes**
Hearing Date:	**April 12, 2010**

Subject: State mandates.

Summary: This bill requires the Department of Finance, beginning with the proposed budget for 2012-13, to draft statutory changes necessary to repeal a mandate that is proposed for suspension. Additionally, this bill requires – to the extent practicable – that when the budget act suspends or defers payment of a mandate, the language in the budget act shall specifically identify the affected section of law.

Background: Section 6 of Article XIII B of the California Constitution, as amended by Proposition 1A of 2004, requires the state to reimburse local agencies and school districts for increased costs if the Legislature passes a law or the administration issues an executive order or adopts regulations that require a local agency to perform a new or higher level of service. There are several exemptions to the reimbursement requirement, such as for laws expanding the definition of crimes.

Article XIII B also provides that certain mandates are suspended (that is, the local agency is not required to perform the mandate) in years in which there is no appropriation provided in the annual Budget Act. The local agency is not required to comply with a state mandate that has been suspended. The Legislature cannot suspend a state mandate relating to schools, community colleges, or local government employee rights.

Under current law, the mandate reimbursement process takes three years. In the first year, the local government incurs costs to implement the mandate which is initially covered with local funds. In the second year, the local government totals the mandate costs for the prior year and submits a reimbursement claim to the state. In the third year, the state funds are appropriated in the budget act and locals receive their reimbursement. When a mandate is suspended in a particular budget act, repayment of past claims is deferred for that year and no new state payment obligations are created because the local government is not required to perform the activity in that year.

Due to the severity of the budget deficit, the 2009 Budget Act suspended most non-education local mandates. Generally, all reimbursable state mandates on local governments were suspended *except* those in the following categories:

- Law enforcement and crime victim rights mandates.
- Voting procedure mandates (to maintain necessary uniformity across the state).
- Property tax administration mandates (to maintain necessary fiscal information).
- Medi-Cal beneficiary death notices (due to greater savings from fraud prevention).
- Brown Act / open meetings mandate (to maintain transparency and access to government).

Some of the mandates suspended in 2009-10 were suspended for the first time. Others have been suspended for multiple years – some more than a decade.

Proposed Law: This bill requires the Department of Finance, beginning with the proposed budget for 2012-13, to draft statutory changes necessary to repeal a mandate that is proposed for suspension. Additionally, this bill requires – to the extent practicable – that when the budget act suspends or defers payment of a mandate, the language in the budget act shall specifically identify the affected section of law.

The purpose of the bill is to focus attention on a concern raised by the author about a significant number of reimbursable mandates on the books which have not been funded for several years. The author believes that the provisions of this bill would provide additional information to lawmakers, schools, and local government officials about what mandates are suspended and which laws are affected by those suspensions.

Fiscal Effect: This bill would result in minor absorbable costs to the Department of Finance. Since this bill would not repeal any mandates, it would not affect mandate costs.

Support:
California State Association of Counties
California Police Officers' Association
California Police Chiefs Association
California Special Districts Association
City of Costa Mesa
League of California Cities

Opposed:
None on file.

Comments: By requiring the Department of Finance to draft language to repeal mandates, this bill would create a minor new workload for the Administration. However, this bill does not require that those suspended mandates be repealed and the draft language may not create any benefit if neither the Administration nor the Legislature supports repeal. Adding the affected section of law to the budget act for suspended mandates may provide some additional level of clarity for local government; however, the budget act already includes the implementing chapter and year.